

FAS Plants Russian Seeds for U.S. Export Opportunity

On Aug. 19, 1998, Russia went into a financial crisis. Banks collapsed and Russia's currency, the ruble, tumbled.

But now, many observers feel the situation is improving. Among them is Geoffrey W. Wiggin, FAS' Minister-Counselor at the U.S. embassy in Moscow. He notes that thanks to strong oil prices Russia's currency has stabilized and the nation is now seeing economic growth. Banks are working at reform. In fact, the country's credit-worthiness has recently been upgraded.

"As the economy has strengthened in the last year, Russia has enjoyed a certain new measure of stability. There have been increases in demand for agricultural products including imports, particularly U.S. poultry. This demand is largely centered in urban areas such as Moscow and St. Petersburg," said Wiggin.

But to achieve a larger recovery, he added, Russians will have to find ways to improve the economic status of the vast number of consumers who live outside major metropolitan areas.

What Happened and Why

In large part, the collapse began when some banks strayed from their mission.

"For lack of a better term, they were engaged in a high-level pyramid scheme, and when the scheme collapsed other banks went under as well, taking the Russian economy with them," Wiggin said.

As a result, Russia's currency was devalued from about 6 rubles to the dollar to 28.

FAS Helps With Recovery

With the crisis swirling, how could U.S. exporters maintain a presence in Russia's turbulent market? Asif Chaudhry, FAS' Assistant to the General Sales Manager, developed a novel commodity assistance package. The plan involved food commodities for immediate needs following the crisis and feed grain, soybean meal and planting seeds for use as agricultural inputs.

Seed Aid Benefits Both Nations

In January 1999, the plan was implemented. The decision to provide seeds was a practical response to a problem: Russia's farmers lacked credit to buy any seeds—let alone those of quality. Furthermore, the poverty in the region promised continuing need.

"Russia's 1998 economic crisis coincided with the nation's worst crop in a hun-



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dred years," said Chaudhry. "In 1997, they harvested 87 million tons of grain; in 1998, the harvest was 47 million tons."

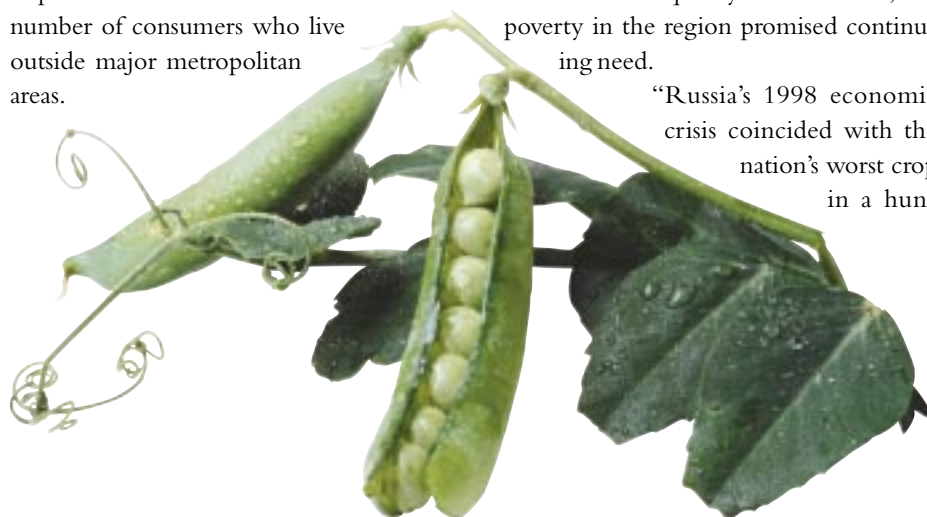
After the Russian government asked the United States for assistance, Chaudhry and other FAS food aid analysts made dealing with tight food supplies their top priority.

"We had provided food aid, but part of the message behind seed aid was: 'Okay how will Russian fare next year if we give them only food for this year?'" said Chaudhry.

Both Wiggin and Chaudhry said that the seeds won't solve all the problems of Russia's credit-starved farmers. To thrive, they also need new machinery and other upgrades. But the seeds will help, and they have an added benefit for U.S. agriculture.

"Seed aid was also the right decision from the market development perspective," said Wiggin. "It provided us with an opportunity to see how U.S. seeds fared under Russian growing conditions. And they did great! The pea seeds we sent to Russia have completely outperformed domestic varieties. We heard of a cannery that ran out of cans because farmers produced so many peas from the seeds that we provided."

Since the 1999 crop year was also bad, the seed aid program was continued for a second year. The 2000 crop appears to be improved, however.



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Why U.S. Investment in Russia?

While U.S. investment in Russia's recovery is valuable on a humanitarian level, it also benefits U.S. agriculture. When better times come, those seeds, with their high production quality, could be a popular choice with Russian farmers. But there are bigger, macroeconomic reasons for planting seeds for trade in Russia.

Before 1991, Russia had a centrally planned economy that was part of the larger Soviet Union system. Even though the nation is currently impoverished, with autonomy Russia became a market of 140 million citizens, a potentially large market for the future trade.

"If you look at Russia's per capita consumption of major critical commodities, such as meat, poultry, eggs and milk, you find it is extremely low by world standards," said Chaudhry. "This means Russia's market is one where exporters have a future if they take initiative."

What Russia Must Do

The rise in oil prices over the summer and fall of 2000 brought Russia an unexpected degree of stability. Natural resources like petroleum bring in more income to buy imported goods.

Wiggin and Chaudhry also foresee changes Russia could make that might help

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the country's agricultural industry recover and stimulate demand for U.S. goods.

"The Russian government recognizes the importance of agriculture in its bid for meaningful economic growth," said Wiggin. "Unfortunately, there isn't a lot of investment money. They are looking for ways to encourage agricultural production."

A big problem, according to Wiggin, is breaking habits from the Communist past such as providing subsidies or supports on a non-economic basis to regional governments and producers with political connections.

There are specific policy reforms that Russia's parliament could undertake that would help agriculture, according to Chaudhry.

There are some regions, called *oblasts* in Russia, where steps have been taken to



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favor competition. If these changes could be replicated on a national scale, Russia's economy overall would improve.

What Other Nations Could Do

While Russia can, and is, taking steps to reform its economy, it needs support from the rest of the world. One way to do this is through fair-minded trade policies.

European subsidies present special problems, not only for U.S. agriculture trying to make it in Russia's re-emerging market, but also for Russians as well.



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"Subsidized European pork poses a threat to our poultry imports," said Wiggin. "The price spread between pricier pork and cheaper chicken is key. If you use subsidies to shrink that gap between pork and chicken, you then find people will shift their consumption away from poultry."

The European subsidies hurt Russian producers. It is one thing for them to compete against unsubsidized competition, like U.S. poultry, but quite another to compete with subsidized product.

"We try to make sure the Russians don't confuse our wares, which are the result of efficient production, with European goods, which may be heavily subsidized," Wiggin said.

WTO and the Future of Russian Trade

Chaudhry and Wiggin both agree that another important trade issue for Russia is World Trade Organization membership.

"Membership would establish ground rules and clear conditions for products go-

ing into Russia," said Wiggin. "It will help traders to know just what Russia requires and that their trade and agribusiness policies are consistent with those of the rest of the world."

WTO membership will be good for Russia, Wiggin said, because it is expected to help move resources into the hands of those best suited to use them and improve agricultural efficiency. It will also set limits on tariffs.

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Bringing major nations like China and Russia into the WTO helps all members thrive, since major international exceptions to the WTO make for confusion and increase the work—and worry—for all the members.

"Right now we have a range of plant protection practices as well as sanitary, phytosanitary and veterinary requirements for exporting to Russia that are more protectionist than based on sound science," said Chaudhry.

"When universal standards are based on agreed-upon science, it will really help bring Russia into harmony with the rest of the world, expanding their opportunities for trade—not to mention our own. ■

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Making the Most of Russia

How can small- and medium-sized businesses make the most of Russia in recovery?

● **Watch trends** like the increase in the import of ingredients. Russian importers may forgo buying finished products in favor of raw materials that can be processed at home, but ingredients are a bare necessity and suppliers in Russia may be unreliable.

"Russia has a real sense of national pride, so there is a tendency for Russians to do it themselves, even to the point of inefficiency," Chaudhry said. "For example, to make domestic beer they take away grain intended for livestock production. Beer-making may give grain added value, but at the price of other, more key agricultural priorities."

● **Luxury meats for high-end hotels are a good bet.**

"Small-scale importers of commodities like grains are probably not going to have an advantage over large importers," said Wiggin. "But small companies might do well in value-added products such as high-quality beef for the restaurant trade."

Because of the lack of credit available to Russian traders, they purchase beef in smaller quantities, often only a few containers at a time.

Having the right contacts is essential, however, according to Wiggin.

● **Check the FAS home page regularly (www.fas.usda.gov)** The site has reports on commodities and certification requirements for shipping to Russia.

